Demolition taxes and condominium conversion fees overview

Cities, towns and counties establish demolition taxes and condo conversion fees as a way to generate revenue and replace affordable housing lost to these activities. The proceeds from both demolition taxes and condo conversion fees are typically deposited in a housing trust fund to support affordable housing activities.

Demolition taxes are levied on property owners when they tear down residential buildings. In most cases, demolition results in the loss of homes that tend to cost less than the homes that replace them—because they are older, smaller, or lack modern amenities. Over time, in cities, towns and counties where teardowns are a regular occurrence, this can result in the loss of a substantial supply of naturally-occurring affordable housing. To compensate for this loss, some communities assess taxes on the demolition of single-family homes and/or multifamily buildings, typically charging a flat rate per unit. Depending on program rules, activities that fall short of total demolition – such as redevelopment activity that destroys or removes a specified portion of the building – may be sufficient to trigger liability.

Condo conversion fees are payable by developers when rental housing is removed from the housing stock through conversion to homeownership units. Fee amounts can be established as a flat rate, as a percentage of the first sale price for each unit (typically around 1 percent, but as high as 12 percent or more in some jurisdictions), based on square footage, or by some other method.

Demolition taxes can also be adopted to discourage “teardowns” and encourage the preservation of older homes, which are often more affordable to residents than the new construction that would replace them. Click here to learn about policy tools that focus specifically on preserving existing affordable housing.

Demolition taxes and condo conversion fees are often established as sources of funding for affordable housing trust funds. Click here to learn more about housing trust funds.